



2012 Proposed Legislation

The 2012 Hawaii State Legislature opened on January 18, 2012 and will run through May 3, 2012. The Employees' Retirement System (ERS) has introduced 3 bills to be heard and discussed during this session. Below are summaries of the bills that have been introduced in both the House and the Senate. For more information on this and other legislation, you may visit the State Capitol website at www.capitol.hawaii.gov.

HB 2487 and SB 2749 – Amendments to sections related to the new benefit structure effective July 1, 2012 (Act 163):

- *Restores parity between judges and other contributory members with respect to age and service requirements for retirement*
- *Corrects the benefit multiplier for ordinary disability retirement to be consistent with the benefit multiplier for service retirement*
- *Amends the minimum service requirements for the Hybrid Plan hypothetical contribution account balance for ordinary death benefits*

HB 2488 and SB 2750 – Addresses the unexpected increases in retirement benefits for some members of the ERS and in the unfunded liability of the system by limiting the amount of compensation included in the "average final compensation" of new and current members and requiring employers of current members to pay the costs attributable to additional benefits resulting from "pension spiking."

Public employers and ERS members provide contributions that fund a member's retirement benefits over the member's anticipated employment period, so that there will be sufficient monies to pay the member's retirement benefit. For the career government employee, this could entail a span of 25 or 30 years of service. If an employee's pay suddenly increases substantially in the final years of employment, the employee's retirement benefit (which is based on the employee's three or five highest paid years) can be increased dramatically without the years of contributions required to fund the increase. This, in turn, increases the unfunded actuarial accrued liability (difference between the value of benefits earned for services already performed and the assets to pay for these benefits) of the ERS, which is currently at \$8.2 billion.

In order to alleviate the negative impact of this practice, this legislation proposes the following changes:

- *For employees who become ERS members after June 30, 2012: Limits the amount of compensation that can be included in the calculation of the member's retirement benefits if the member's non-base pay (such as overtime or bonuses) during the member's "high-five" years exceeds limits based on the average of the member's non-base pay during the last 10 years of the member's service.*
- *For existing members: Limits the amount of compensation that can be included in the calculation of the member's retirement benefits if the member's non-base pay during the member's "high-three" or "high-five" years exceeds limits as noted above; however, this calculation would only be applied to periods after June 30, 2015.*
- *For existing members: Requires the member's last employer to pay the additional costs resulting from sudden increases in the member's non-base pay during the member's final years of employment.*

HB 2489 and SB 2751 – Includes the requirement that one member of the ERS Board of Trustees shall have investment experience.

Results of these proposals shall be covered in our June 2012 *Holomua*. Until then, you may follow these bills online at the State Capitol website noted above, or by following our Administrator, Wes Machida, on Twitter at <http://twitter.com/ERSHawaii> or by accessing the ERS website at <http://ers.ehawaii.gov>.

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Wes' Corner



Aloha,
Wes Machida

We are well into the 2012 Legislative Session and hopefully the outcome will be beneficial towards improving our funding situation. As of June 30, 2011, the ERS' unfunded liability was \$8.164 billion. The ERS Board of Trustees continues to be diligent in their efforts in addressing this large unfunded liability.

Three administrative bills are working their way through the legislative process. Updates on these and other bills are included in this newsletter, and will be posted to our Twitter account as legislative decisions are made.

As part of our strategic plans to improve customer service, we are working on improving our website. It will have a new look and feel, be better organized, easier to navigate, and provide more information such as postings to our Twitter account. The plan is to have the new website launched in March or April of 2012.

Our plans for the remainder of 2012 are to find more ways to get you information to help you make good retirement decisions. We hope to hear from you, so that we can continue to improve our services.

Report from Rod June, Chief Investment Officer

It's the beginning of a new year: Time to tighten the belt and get your personal investment portfolio in shape! As an institutional investor, I do not advise individual ERS members on their personal investment portfolios. However, I provide a general approach to portfolio construction and monitoring – the same process we use at ERS - as one way to help achieve your personal investment goals.

Determine your objectives Return requirements, risk tolerance, and liquidity needs are key objectives to consider in portfolio construction. Your personal situation will largely drive the importance of each of the three factors. Generally speaking, more importance is placed on higher degrees of liquidity and less risk the closer you are to retirement; more importance is placed on capital gains and higher risk tolerance the farther you are from retirement. Most investment strategies available to the average investor offer daily liquidity. Your personal situation and own analysis will determine where you fit along this continuum.

Diversify! Research shows that the greatest success in long-term investing comes from thoughtful investment diversification. Creating an asset allocation plan is essential, which is simply employing several distinct investment strategies (e.g., U.S. large cap stocks, international stocks, U.S. corporate bonds, etc.) into various percentage weights based on expected return and risk characteristics. The optimal portfolio is one that maximizes performance return, minimizes risk volatility, and addresses your liquidity needs. Determining the proper weights requires some homework or a discussion with your trusted financial advisor.

Discipline, Discipline, Discipline The next step is simple: stick to the plan. Because investment valuations change over time, you should rebalance the asset allocation plan to maintain the portfolio near the predetermined asset weightings by shifting assets from strategies that are above the targets to strategies that are below the targets to bring the actual weightings back in line with the original target weightings. Many investors establish the percentage ranges around the original targets that, when exceeded, signal a rebalance. A disciplined investor has the highest probability of achieving long-term investment goals.

I will discuss the distinct investment strategies and sample policy target weightings in a future edition of the *Holomua*.

Congratulations to Board Member, Emmet Kane

The ERS is pleased to announce that Emmet Kane was elected to the Board of Trustees on January 11, 2012. Mr. Kane's term will run through January 1, 2018.

Mr. Kane is a Deputy Fire Chief with the Honolulu Fire Department and has more than a decade of supervisory, management, and long-range planning experience. He was an East-West Center Degree Fellow and holds a Master of Business Administration degree from the University of Hawaii. In addition, he has served on the Executive Board of the Hawaii Fire Fighters Association.

In January 2010, Mr. Kane was appointed to the ERS Board of Trustees to complete the term of a retiring trustee. During the past 2 years he has chaired the board's Audit committee and has been a member of the board's Administrative committee. At its February board meeting, Mr. Kane was voted Vice Chair of the ERS Board of Trustees. The ERS Board and membership may look forward to many beneficial and productive years under Mr. Kane's trusteeship.

Working to fulfill your retirement dreams . . .

The Employees' Retirement System Board of Trustees has approved a 2011 – 2015 Strategic Plan for the ERS:

Our Mission is to work together to provide a responsive, competent, and cost-effective retirement program that elicits pride, confidence and trust.

We follow the Spirit of Aloha as:

- A** “Akahai” meaning kindness, to be expressed with tenderness. We will be kind and caring to all that we meet.
- L** “Lokahi” meaning unity, to be expressed with harmony. We are one team going in a positive direction.
- O** “Olu’olu” meaning agreeable, to be expressed with humility. We will work towards a common goal and be sensitive to the needs of others.
- H** “Ha’aha’a” meaning humility, to be expressed with modesty. We will be humble and considerate of others.
- A** “Ahonui” meaning patience, to be expressed with perseverance. We are motivated to always do what’s right and never be deterred from achieving this goal.

And our vision is to be the best organization in meeting the retirement needs of our members by achieving two of our primary goals:

- *Improving the ERS funded ratio with the long-term goal of achieving a 100% funded ratio*
- *Providing excellent service to members, retirees, beneficiaries, and employers*

Please view our complete Strategic Plan on our website at: <http://ers.ehawaii.gov> by clicking on the “Resources” tab and clicking on “Publications” tab.

Do I lose any service credit when I have a “break in service”?

The ERS has received many inquiries about how service credit is determined and how a “break in service” impacts a member’s total membership service.

How does a member earn service credit? The ERS recognizes a full month of service if a member works for 15 or more calendar days (14 or more calendar days for the month of February) during the month in a position eligible for ERS membership. For example, if the last working day of the month is May 16th, service credit will be earned for the month of May. If the first working day of the month is May 14th, service credit will also be earned for the month of May. However, if the first working day of the month is May 21st, service credit will not be earned for the month. For retirement benefit purposes, there are no partial months of credited service – a month is either credited or not credited.

What is considered a “break in service”? For retirement purposes, a “break in service” occurs when a member is separated from service (by termination or resignation) and does not begin working for the same or another State or County agency on the next working day. Based on a normal work week (i.e., Monday thru Friday) if a member was terminated on a Friday (May 11) and was not re-hired to a position until the following Tuesday (May 15), there would be a break in service of one day (May 14). In the case of a “break in service” of one day, there would be no impact on the member’s total membership service. For service credit purposes, if a break in service does not total more than 15 calendar days in a month (14 calendar days for February), there would be no loss of service credit. On the other hand, if there was a break in service from May 11 to May 31 (21 calendar days); there would be no membership service credit for the month of May.

Leaving State or County Employment? Call ERS before you terminate service.

If you plan to leave government service, please contact our office so we can provide you with all your termination options and help you make wise retirement decisions on your future pension or refund of contributions, if applicable. Be sure to notify the ERS of any future address changes so that you can continue to receive our *Holomua* newsletter. Remember, the time to ask about the effects of leaving State or County employment is **before** you leave.

On the Neighbor Islands

Alan Nakamoto, our longtime ERS Maui District Liaison, retired on December 31, 2011 with 35 years and 2 months of dedicated State service. He started our Maui office in 1990, servicing all the Maui active members, retirees/beneficiaries, as well as the State and County personnel and payroll staff. In addition, Alan was also responsible for our membership on the islands of Molokai and Lanai. Alan made significant contributions to the organization with his “can do” attitude. He helped a lot of members and made many friends during his employment with the ERS and will be missed by everyone as he is now a ‘retiree’ himself.

Our Maui office remains in good hands. Paul George, Maui District Liaison, has been with the ERS since 2006 and will continue to service our Maui, Molokai, and Lanai members.

Our other neighbor island representatives also continue their dedicated service on their respective islands: Rhoda Miyashiro and Dayle Ishii from our Hawaii District Office and Sheri Kunioka-Volz and Paula Alquiza from our Kauai District Office. They provide counseling services and also assist the State and County personnel and payroll staffs.

Automatic Refunds of Retirement Contributions to Inactive Non-vested Members at Age 62

If you are an inactive Hybrid Plan or Contributory Plan Member who has separated from employment with less than the required 5 years of service to receive a retirement benefit, you are eligible to leave your retirement contributions with ERS or withdraw your contributions at any time. However, if you do not withdraw your contributions by age 62, ERS will automatically refund the contributions to you. The following summarizes what happens if you become an inactive member.

Situations	Hybrid Plan	Contributory Plan										
Years of service (YOS) credit to qualify for retirement benefits	Years of Service (YOS) Attain 5 years of service (for membership dates prior to 7/1/2012)											
- Years you remain as an “Active Member” to retain your membership date	Four calendar years following year of termination. i.e. if terminates service in 2012, will retain membership date and service until 12/31/2016											
- Able to withdraw retirement contributions	Yes, any time upon filing a refund application											
- Able to purchase refunded service if you later became a new ERS member	No. Hybrid service may not be acquired if refunded. Noncontributory service will be restored on a month for month basis.	Yes. With certain limitations, able to purchase previous Contributory Plan services.										
Automatic Refund - ERS will automatically return your retirement contributions and interest	The later of: - Age 62 or - Four calendar years after you terminate <table><tr><th>Age terminated</th><th>Age upon refund</th></tr><tr><td>55</td><td>62</td></tr><tr><td>57</td><td>62</td></tr><tr><td>58</td><td>63*</td></tr><tr><td>63</td><td>68*</td></tr></table> *Based on the 4 calendar year rule		Age terminated	Age upon refund	55	62	57	62	58	63*	63	68*
Age terminated	Age upon refund											
55	62											
57	62											
58	63*											
63	68*											
Interest is paid on your retirement contributions	Up to the month prior to refund											

We would like to remind you to keep your address current with the ERS so we can continue to provide you with valuable information regarding your benefits.

New Website Coming Soon

The ERS will launch its new website in March or April 2012. The new design features additional categories that provide members with more information right at their fingertips. The website is also designed to be more user-friendly on mobile devices and will provide the latest news via information networks.

Some of the new features include:

- A new monthly calendar displayed on the home page to keep you up to date with ERS events at a glance
- A Twitter account so you can follow the latest news
- A member login to access your retirement information. Currently available only for Contributory Plan members, but other plans will be coming soon.

You'll be able to take a closer look in March or April 2012 at our new website address: <http://ers.ehawaii.gov/>

Are you following ERS on Twitter?

The ERS Hawaii Twitter account is up and running. Wes Machida has been busy updating Twitter followers on legislative issues that affect ERS. He has over 50 Twitter followers, including the California Public Employees Retirement System. Come join them!

For a visual walk through of the set up process, go to:

www.youtube.com/watch?v=YlfipDumtCo or to: support.twitter.com/articles/100990-how-to-sign-up-on-twitter.

Required Minimum Distribution from ERS (at age 70½)

Did you know that ERS has 6,600 inactive vested members who have not retired and over 650 members which represents 1% of the active membership working past age 70?

As a tax qualified retirement plan the ERS is subject to "Required Minimum Distribution" requirements. This requires that the member's retirement benefits begin, or member's retirement contributions be refunded no later than an individual's "required beginning date." In accordance with federal income tax laws and Hawaii statutes, the "required beginning date" is April 1 of the calendar year following the later of which the ERS member (1) terminated employment or (2) attained age 70½ (if already terminated).

The examples below show how a "required beginning date" is determined for members born in 1941. Examples A and B are based on age 70½ while C and D are based on termination year.

Examples	Date of Birth		Year attains age 70½ at 12/31/xxxx	Year employment terminated	Req'd begin date	Reason for Required Distribution
	From	To				
A	1/1/1941	6/30/1941	2011	2011 or earlier	4/1/2012	Age 70½ at 12/31
B	7/1/1941	12/31/1941	2012		4/1/2013	
C	1/1/1941	6/30/1941	2011	2013	4/1/2014	Terminated Employment
D	7/1/1941	12/31/1941	2012		4/1/2014	

The ERS is required to commence the retirement benefits in accordance with State law even if the required retirement or refund applications are not received. If the member does not start to receive their payment on the "required beginning date," there is a federal excise tax (penalty) of 50% applied to the minimum distribution amount under Section 4974 of the Internal Revenue Code. For example, if the member's required minimum distribution for the year was \$10,000, then the member may be subject to the federal 50% excise tax of \$5,000 for that year.

For 2011, the ERS has already sent out 10 retirement applications and 30 refund applications to inactive members as their "required minimum distribution" date is April 1, 2012. Please contact our office immediately if you are or will be in this situation so payments may be made in a timely manner. If you have other questions regarding the Required Minimum Distributions, we recommend you consult with a qualified tax advisor with regard to your specific situation.



Employees' Retirement System

of the State of Hawaii

Working to fulfill your retirement dreams...

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Holomua

Active Members

1st Quarter 2012

Ask ERS

Answers to some frequently asked questions:

Q: Will the current ERS website address (www4.hawaii.gov/ers) take me to the new website?

A: Yes. Our current website address will direct you to the new website which will be available in March or April 2012. (See related article)

Q: Should I file for retirement now due to any proposed legislation that may impact my retirement benefit?

A: It should be your decision if and when you're ready to file an application for retirement. That decision should be based on your personal circumstances (i.e., finances, beneficiary benefits, retirement preparation, etc.) rather than on any legislation that may or may not become law. However, please note that any current legislation proposed by the ERS (see "2012 Proposed Legislation" article in this issue) will not retroactively or immediately impact any current employee. All accrued service, average final compensation (AFC) or benefit formula to which you are already entitled will not be impacted. It is important to note that since the legislature is still in session all "proposed" legislation is subject to change. You should continue to watch the news and access the legislative website to track any proposed legislation that may affect your retirement decisions. Our next *Holomua* will update you on the outcome of ERS-related measures.

How to Contact Us

Monday-Friday 7:45 a.m. - 4:30 p.m.
(except State holidays)

Oahu Office, Phone: (808) 586-1735

Kauai Office, Phone: (808) 274-3010

Hawaii Office, Phone: (808) 974-4077

Maui Office, Phone: (808) 984-8181

Molokai & Lanai, toll free to Oahu:
1-800-468-4644, ext 61735

Continental U.S. toll free to Oahu:
1-888-659-0708